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UNCLAS SECTION 01 OF 02 ISTANBUL 000796

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STATE FOR E, EUR AND EB
TREASURY FOR U/S TAYLOR AND OASIA - MILLS
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E.O. 12958: N/A

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SUBJECT: EXPORTS REMAIN STRONG, BUT LIRA WORRIES PERSIST

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[11.](#) (SBU) Summary: New figures released by the Turkish Exporters Assembly (TIM) on June 2 show that Turkey's exporters withstood the challenge of a strengthening lira and set a new monthly export record of USD 3.9 billion in May, a 30.7 percent increase over 2002. For the year ending May 31, exports were USD 40.7 billion, up 28 percent from the previous 12 month period. Meanwhile, however, declining tourism revenues and an even sharper pickup in imports led the GOT to revise its 2003 current account deficit projection from USD 3.7 billion to 6.1 billion. Exporters warned too that the appreciating lira threatens their competitiveness and added their voice to calls on the Central Bank for a decline in interest rates and more consistent exchange rate policy. Central Bank officials counter that continued low unit labor costs and productivity increases are keeping Turkish exports competitive, and that exporters are focusing excessively on the lira-dollar rate, which--for trade purposes--is much less important than the lira-Euro rate, where the lira's appreciation has been much smaller. End Summary.

[12.](#) (SBU) A new record: The statistics unveiled June 2 in Istanbul show Turkish exports moving from record to record, with April's USD 3.74 billion giving way to May's 3.916 billion, despite the lira's appreciation. For the first five months of the year exports were USD 17.9 billion (versus 13.36 billion in the same period last year), while for the last twelve months they totalled USD 40.7 billion. The record was paced by sharp gains in exports of textiles (up 28.6 percent to USD 993 million) and automotive products (up 48.4 percent to USD 596 million).

[13.](#) (SBU) But a widening deficit: Even with the export record, however, the GOT also moved on June 2 to revise Turkey's projected 2003 current account deficit up to USD 6.1 billion. While projected exports were revised up to 40.6 billion from 39.4 billion, even more quickly growing imports and a projected decline in tourism revenues (though of a lesser magnitude than was predicted earlier in the year) account for the widening gap. In announcing the shift, State Minister Babacan also pointed to the impact of the strong lira and what he characterized as strong private sector demand.

[14.](#) (SBU) Statistical Anomalies: While a welcome and positive development, commentators argue that the headline export figure is not necessarily as impressive as it first appears. Given that the bulk of Turkey's exports (nearly 66 percent) goes to the European Union and is priced in Euros, "Sabah's" Abdurrahman Yildirim noted, a portion of the January-May increase (perhaps as much as a quarter by our rough calculations) stems from the Euro's increase in value against the dollar.

[15.](#) (SBU) Shoals Ahead: In announcing the May figures, TIM Chairman Oguz Satici warned that notwithstanding the positive results of the last five months, export growth is becoming unsustainable because of the appreciating lira. May's figures, he said, reflect orders placed in the first three months of the year, while currently exporters are coming to a situation where they "cannot accept orders" because the appreciating exchange rate does not permit them to accurately predict costs and income, and consequently prices. Arguing that the current rate serves the interests of "rentiers" and not the real economy, he called for an exchange rate "in the same line as inflation and input costs," and warned the Central Bank that "those who avoid responsibility even though they have authority will be called to account."

16. (SBU) Comment: Central Bank officials question exporters' arguments. First, they point out that, while the lira-dollar exchange rate is important in financial markets, the lira-Euro rate is much more significant for trade. Although the lira has appreciated against the Euro, its rise has been much more modest than against the dollar. Furthermore, imported inputs for exports tend to be priced in dollar terms, so the lira's appreciation against the dollar is not a complete negative for exporters. In addition, these officials point out, Turkish exporters continue to benefit from low unit labor costs, which still have not recovered from the 2001 crisis, and from rising productivity. End Comment.

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